



# MORTGAGE BULLETIN

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## MORTGAGE DRIFT

AT this writing it might be said that the forces of inflation and deflation are temporarily in fair balance. But there are so many cross-currents swirling in the business tide that seasoned bankers profess a determination to pursue a more than ordinarily conservative policy in making mortgage commitments. However, there are other institutional lenders who think the banks are getting "too tough" and who do not appraise the situation as unduly hazardous for mortgage lending. They think the long-run factors are inflationary and especially so with the added impact of the armament program which they believe will be carried on into the foreseeable future.

Relevant to this thinking, the president of a trust company, a man with years of experience in large-scale mortgage lending, told me he could not agree with our ideas of an approaching down-trend in lumber prices and the decline in real estate values we look for by the mid-1950's. He thinks the huge government debt, the billions to be spent on armaments and the ERP, will result in a resurgence of inflationary pressures with no drop in the level of construction costs for several years to come. We are not inclined to agree with him although we think it might be a possibility.

At present there are no threatening signs in the over-all course of real estate values that inflationary pressures will again break out in a boomful upward spiral. We do think, however, that the defense program, the ERP, and the income tax cut have given a new inflationary stimulus to what otherwise would be a sagging economy as earlier in the year deflationary forces seemed to be in the ascendancy with the rise in the rediscount rates, the break in commodity prices and complaints from some merchants of worsening business conditions. The long-run effects of the armament expenditures are hard to estimate, but we hope, with Massachusetts' Senator Lodge, that history will not record that the Russians "merely sat back and angered" this country into appropriating so freely and unintelligently for defense that we "bled our own economy to death."

The galloping building boom, which for a brief period slowed down to a fast walk, has again broken into a run and is creating a rising demand for mortgage funds. An expansion of financing activities is resulting and competition for loans is getting keener than it was a while ago. It seems significant to observers that, in the face of a fast reviving competition for mortgages, some institutional lenders are operating cautiously and with a realistic attitude towards justifiable loan values while others have made no changes in their lending policies, convinced that the armament billions and the ERP have offset deflationary influences and strengthened long-run prospects.

The commercial banks, fortified by the impressive preachments against inflationary lending earlier in the year by Mr. Dodge and other officers of the crusading (anti-inflation) American Bankers Association, are showing a commendable conservatism in their mortgage operations and are making carefully screened loans carrying a substantial down payment. The result of this disciplined program is that the commercial banks are turning down more applications than they accept. As the public policy is oriented toward easy credit for home financing, many home buyers, hoping to finance a home on a small down payment, resent the position taken by the banks.

The tightening of mortgage money by both commercial and savings banks is bringing more business to the savings and loan associations. The total resources of the savings and loans and the co-operative banks are now about \$12 billion, and last year they financed one-third of the country's new home construction, amounting to approximately \$900,000,000. There are cogent reasons for this imposing volume of business. Realizing the value of prompt service to the borrower, the savings and loans process applications more quickly, as a general rule, than the savings banks and they also expedite their appraisals with greater dispatch. Passing on a loan application promptly is a highly important factor in building mortgage business and customer good will. Some savings banks take so much time reaching a decision on an application that the borrower probably wishes he had applied for the loan elsewhere. Then, on the average, the active executives in the savings and loan associations are younger than the key men in the banks and they have their mortgage operations geared to a faster tempo, particularly when it comes to going after new business.

Apropos of this business-getting alertness, Morton Bodfish, chairman of the Executive Committee of the United States Savings and Loan League, announced in Chicago, on May 13, a nation-wide plan for savings and loan associations to concentrate available funds on the construction of homes in the \$4,000 to \$10,000 class and in the metropolitan cities up to a bracket of around \$12,000. A statement of policy drafted by the Executive Committee called on the member associations to channel approximately \$2 billion during 1948 into the financing of new homes in these low-cost brackets, and it expects them to provide the necessary funds for about half a million homes. Also included in the new plan for preferential financing is the Committee's suggestion that loans on higher-priced homes be deferred when such action is practicable. This aggressive program should be a real incentive to home builders to produce houses in the price class that is needed most and which the associations are ready and anxious to finance.

The steady growth of savings and loan associations (savings receipts were \$754,000,000 for the first two months of 1948) is giving banking interests something to think about, and in New York State the bankers have started to fight back against the competitive methods used by some of the associations. This fight has been long in the making and although the bankers are trying to keep it "underground" it is nonetheless a fight. Several weeks ago a group of bankers made a "hush-hush" call on the newly reconstituted Home Loan Bank Board in Washington to make a detailed complaint concerning the objectionable activities of certain associations. We have since been reliably informed that their visit resulted in an assurance by William K. Divers, chairman of the Board, that their grievances would be carefully reviewed and, if found necessary, proper steps would be taken to cure their complaint. However, on May 25, at the convention of the National Savings and Loan League in Atlantic City, C. K. Laroque, member of the Home Loan Bank Board, said that he had advised a representative of the American Bankers Association that "it is high time the bankers quit

injecting themselves improperly into discussions on savings and loan legislation before the Congress on matters of no direct concern to them." Evidently the Home Loan Bank Board does not consider the actions of the bankers the way to make friends and influence people and so the battle will probably grow in intensity.

Confronted by what is supposed to be a bear market for construction loan money, and with some tightening of housing credits, building is going forward at an amazing rate in most of the larger centers of the nation. The Departments of Commerce and Labor estimated expenditures for new construction in the first four months of 1948, on a work-in-place basis, at \$4.6 billion, or more than \$1.1 billion over a year ago for the same period. Sharpest gain: residential, 59.6 per cent. Housing starts in April were 90,000, and 257,000 for the first four months of the year ... a 25 per cent gain over the first four months of 1947.

The housing market today, despite all the confident talk of no leveling off in prices, is highly sensitive, and quite a number of reliable builders and experienced mortgage financiers are apprehensive of the future. Nevertheless, construction costs continue to inch upward and so do the prices of new homes. How much longer the building boom can maintain its present momentum in the face of mounting construction costs is a question for serious speculation. Inevitably something has to give.

Our mortgage debt is climbing fast. A recent Federal Reserve report showed that total mortgage indebtedness on one-family to four-family homes has reached a staggering total. There is a well-grounded fear among government officials that home "ownership" is getting on a thinner margin of cash and a thicker margin of credit. Under Secretary of the Treasury Lee Wiggins has recently given warning that the urban real estate situation is "one of the weakest elements in today's economic situation." But it appears that the savings banks are not in accord with Mr. Wiggins and are taking this inflationary real estate market in stride. Their mortgage volume for the first four months of 1948 is running 74 per cent ahead of the 1947 figures for the same period. At the convention in Atlantic City last week Henry Bruère, president of the Bowery Savings Bank in New York, told the National Association of Mutual Savings Banks that today if it were necessary, the bankers would sell their investments in Federal bonds to finance home building. Mr. Bruère said further that "home financing is the major historic role of savings banks' investments. Recent experience indicates that we do not intend to abandon this field." Very large banks like the Bowery, with their vast resources and exceedingly capable executive personnel, are equipped to implement loans in this inflationary period with less concern than smaller institutional lenders.

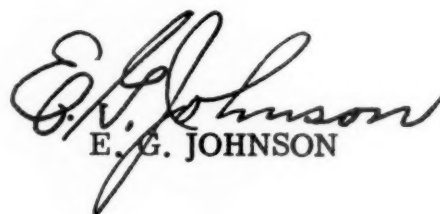
Of course the time to build up a mortgage portfolio is when new construction is active and real estate is in demand. It seems to us, however, that with construction costs on stilts, lumber prices vulnerable to any drop in demand, and with the other problems in the nation's housing situation, mortgage lending in 1948 calls for more than usual alertness to changing conditions and being cautious at all times in making commitments. Current retail prices are no criterion of long-term values and mortgage lenders should endeavor to operate on a basis which eliminates the worst of speculative hazards. Such hazards include the fluctuations in real estate prices which will take place within the next few years. Mortgage loans made in 1948 will face this downward price adjustment in realty values sometime in the early 1950's. The greater exposure of new mortgages to price changes suggests shortening of

maturities and the correction of any other maladjustments in new loan policy.

The demand for GI loans continues to drop. Since last fall the veteran demand for GI home loans has decreased sharply, and in April 1948 the applications were 43 per cent less than the number sought in April 1947. Thomas Sweeney, Assistant Director of the Loan Guaranty Service of the Veterans Administration, ascribed this decline to the tightening of mortgage money and the reluctance of lenders to make long-term loans at a 4 per cent interest rate. There is another reason which Mr. Sweeney did not bring up and that is the poor quality of many homes financed under the GI guaranty. Dr. John Steelman, assistant to the President, conferred on May 28 with representatives of Federal agencies and veterans' organizations on ways of controlling the quality of housing financed with government-insured mortgages. The discussion was devoted primarily to procedures for home owners to follow in determining whether they could secure redress for poorly constructed homes, or fraud, under provisions of loans guaranteed by the Veterans Administration and the FHA insurance.

If home buyers are to get their money's worth in well-built houses, builders should no longer be allowed to enjoy emergency regulations involving financing based on "current costs" instead of real value, which has allowed them to operate without risk. It is this system which let down the bars for reduced standards in housing and resulted in the construction of houses the majority of which are small, four-room box-like affairs with about as much individuality as tourist cabins. We are in grave danger of filling up many of our suburban areas with these so-called "birth control" houses which are simply inadequate (many are jerry-built to fit a price) for ordinary family requirements. Not only are these houses inadequate, but it is economically unsound to absorb valuable land to throw up houses which only by a wide stretch of the imagination can be regarded as "home" for an American family. The liberal and easy financing made available by the government, and supported by many institutional lenders, has fostered a type of dwelling that may well develop into the slums of the future - filled with shanty men.

As this bulletin is being put to bed, word is out that the bankers are highly resentful at the public offensive of leaders in the savings and loan field against banking's "discreet" efforts to curtail the objectionable activities of certain elements in their industry, and are contemplating a vigorous retaliation... The battle flags are out and unless the FDIC and the Home Loan Bank Board can reach an understanding it is anticipated that the banks will look to other sources for satisfaction on the points in dispute.

  
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